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# Managing restructuring in the Czech Republic

*Innovation and learning after the financial crisis*

**Zdenek Karasek**  
**Lenka Janickova**



**Moliere**

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### **THE IRENE NETWORK**

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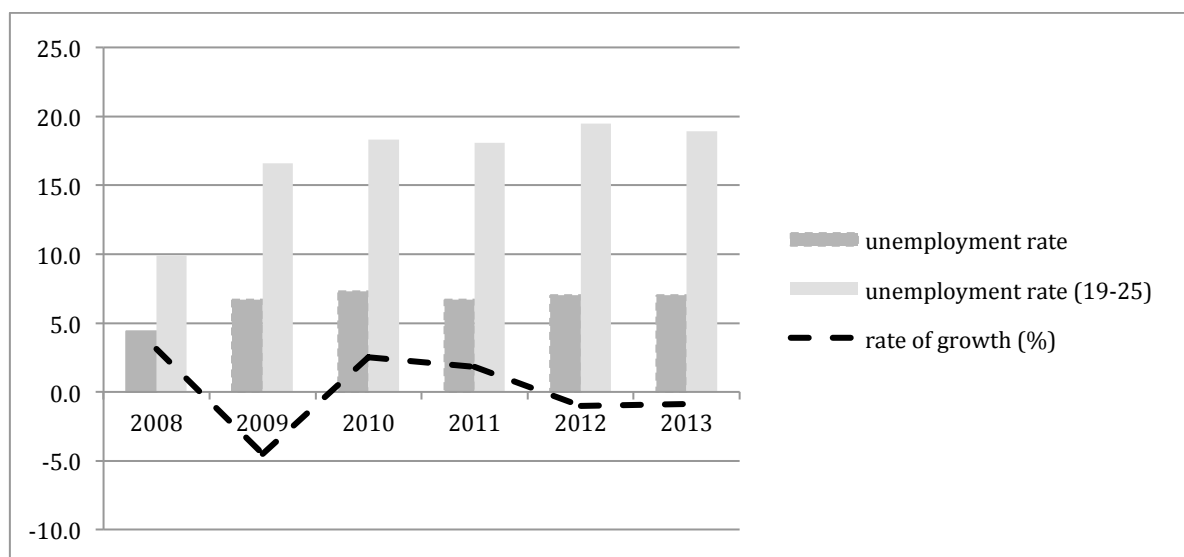
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## Preface

This report is one of 11 national reports in the MOLIERE project, (Monitoring Learning Innovation in European Restructuring), a project funded by the European Commission, DG Employment, Social affairs and Inclusion. The aim of the project is to analyse whether and how the practice of restructuring has changed in a selection of Member States, to assess the impact of the economic crisis on the national level and to monitor how the practice of restructuring changes in the longer term. Each national report assesses the impact of the economic crisis in 2008-2009 on the way restructuring is anticipated and managed. The results are summarised in a synthesis report including a comparison of the developments in Belgium, Bulgaria, Czech Republic, Germany, France, Netherlands, Portugal, Slovenia, Spain, Sweden and the United Kingdom. The aim is to provide updated and harmonized information for social partners and policy makers at national and European level to assist them in policy formation and the design of a European policy framework on anticipating and managing change and restructuring.

## 1. Introduction

Compared to other European Member States, the Czech Republic has relatively well-performing labour market. There is a relatively low unemployment rate, 6.1 %, compared to the EU average at 10.3 % (Eurostat, May 2014). As CERGE-EI (2012) states labour market indicators display many typical patterns not uncommon in the other EU countries, e.g. high gender unemployment rate gap, low spatial worker mobility, high regional unemployment disparities or high share of long-term unemployed. As other EU member countries, the Czech Republic was hardly hit by economic recession. After a decade of growth the rate GDP sharply drop in -4.5 % in 2009 and the economy remained weak in the following years with moderate increase of rate of growth of the GDP and another drop in 2012-2013 (see Chart 1.1). This economic downturn has also been reflected in the labour market. Like in the most EU countries the increase of unemployment rate was quite steep to 6.7 % in 2009. Unemployment has not affected all population equally. The unemployment rate of young people (up to 25) increased more significantly; the same situation was noticed in the case of low-skilled workers. *Chart 1.1: Unemployment rate (%) and rate of GDP growth (%), 2008-2013.*



Source: Czech Statistical Office, 2014.

Restructuring can be defined as a process of accommodating economy to permanent changes in the economic environment. This process can be viewed on the level of the national economy as well as on the level of a company lifecycle. Restructuring of the economy was in the case of the Czech Republic noticed mainly after 1990, when the country has experienced structural changes in the course of the transition to a market economy. The main features were (Poledna, Šúbertová, 2012):

- transition from a planned economy to a market one,
- changes in ownership relations via privatisation,
- changes in the role of the state in managing the economy,
- new social partner structures for dialogue with the government.

As Karásek, Balcar (2009) states, the transformation period as a whole was completed successfully in the year 2000. The following years were characteristic by high economic growth, increase of employment and consequently decrease of unemployment and low and stable inflation.

This report provides an updated description and analysis of how restructuring is managed in the Czech Republic, since the crisis 2008-2009. A number of questions are asked.

- How is restructuring managed in the Czech Republic?
- What happened to the way of managing change through the crisis?
- Does the 'model' used before the crisis still holds?
- Or are there major changes in the way restructuring is managed? If so, what kinds of changes are made in the national 'system'?
- Is there a change within the framework, a modification, amendment of the framework, or a radical change of the framework?

The report is organized in four parts. It opens with a brief overview of the Czech regulation of employment and how this is connected with restructuring. The second section describes the relevant actors and their role in restructuring and in the third section some examples of measures of anticipating and managing change are described. The report concludes with a discussion of the main features of restructuring in the Czech Republic and an overall assessment of how the financial crisis affected the way of managing restructuring in the country.

The remainder of this report is structured as follows:

- Chapter 1 provides an overview of the context and regulation of restructuring and the actors involved.
- Chapter 2 provides an overview of a legal framework on restructuring with the emphasis on the collective agreements and redundancy compensation.
- Chapter 3 provides an overview of the actors involved in restructuring.
- Chapter 4 and 5 provides an overview of the main measures and tools in place for managing restructuring in the Czech Republic, identifying the main common elements.
- Chapter 6 concludes the main findings.

## 1.1 Political context

According to Veverková (2013) the problem of the Czech social dialogue in the years of crisis consists of the fact that the anti-crisis measures proposed by social partners were usually not accepted by the government. From 2008 to 2009 the stakeholders formulated anti-crisis measures in the tripartite meeting. In contrast the Topolánek's government in cooperation with the National Economic Council (NERV) had suggested their own National Anti-Crisis Plan, which was not accepted neither by trade unions nor by employer organisations. The main complain of the stakeholders was based on the fact that above mentioned document was delivered to the social partners late so they could not comment its measures.

This plan preferred to fully concentrate on the supply side instead of on direct stimulus of a demand side. It's main aim was to create an environment friendly for costs reductions. Measures mentioned in the plan focused on two main interconnected priorities (Němcová, Mildeová, 2009): (i) preserving jobs through reduction of costs, and (ii) keeping public finance balanced within the Maastricht criteria. The National Anti-Crisis Plan was not fully realized because of the changes of the political situation when the government lost the majority support in the Czech Parliament.

After the fall of the Topolánek's government in March 2009 the transitional government was appointed. The transitional government and social partners formulated so called 38 common measures of the government, trade unions and employers, those measures intended to pull the Czech economy out of the crisis. In May 2010 regular elections took place. The appointed government essentially rejected previous tripartite agreements and presented new anti-crisis measures, which had not taken social partners' objections and comments into consideration. The right-wing government presented several reforms that were to be put in practice, e.g. (Němcová, Mildeová, 2009):

- to reform public financing with the aim to stop the growing public debt so that in 2016 could be achieved balanced public budgets,
- to reform tertiary education system,
- to restrict corruption in the public sector.

Several new amendments of the Labour Code have come into force since 1.1.2012. Their authors intended to provide more contractual freedom to the employees and employers and increase labour market flexibility. Measure treating temporary unemployment was modified as well (for detailed information see Section 5).

The reform of the labour laws affected social benefits as well. The parental allowances are lowered, but the eligibility rules for this allowance are simpler. Since January 2012 all benefits are paid by employment offices, whilst they were distributed by employment offices and municipal authorities before.

The European Restructuring Monitor constitutes a dataset of restructuring which provides available source on the employment impacts of large-scale organisation restructuring. It captures basic descriptive and quantitative data concerning each reported case of restructuring involving over 100 announced job losses or job creations or, in the case of companies employing more than 250 persons, announced restructurings affecting at least 10 % of the workforce. Results of such restructuring for the Czech Republic are presented in tables (1.2) and (1.3). The economic crisis has influenced the manufacturing sector, public administration and transportation sectors significantly, most of the planned job reductions has been included within internal restructuring whilst planned job creation has been connected with planned job creation.



Table 1.2: Planned job reduction and planned job creation during the period Q1 2008 – Q1 2014.

	Planned job reduction		Planned job creation		Number of observations	
	absolute	relative (%)	absolute	relative (%)	absolute	relative (%)
Internal restructuring	71,411	67.18	0	0.00	160	34.19
Business expansion	0	0.00	71,672	99.10	205	43.80
Bankruptcy/Closure	7,116	6.69	0	0.00	19	04.6
Offshoring/Delocalisation	7,114	6.69	20	0.03	22	4.70
Merger/Acquisition	2,470	2.32	630	0.87	7	1.50
Relocation	1,320	1.24	0	0.00	6	1.28

Source: European Restructuring Monitor, 2014.

Table 1.3: Planned job reduction and planned job creation during the period Q1 2008 – Q1 2014 according to sector

	Planned job reduction		Planned job creation		Number of observations	
	absolute	relative (%)	absolute	relative (%)	absolute	relative (%)
Agriculture	3,472.00	3.27	0.00	0,00	7.00	1.49
Mining/quarrying	3,960.00	3.73	200.00	0.27	7.00	1.49
Manufacturing	59,513.00	55.99	50,447.00	69.75	322.00	68.66
Construction	1,908.00	1.79	1,200.00	1.60	7.00	1.49
Retail	1,265.00	1.19	5,080.00	6.79	17.00	3.62
Transportation/storage	11,141.00	10.48	6,624.00	8.85	33.00	7.04
Financial services	3,824.00	3.60	1,862.00	2.49	20.00	4.26
Real estate	0.00	0.00	1,050.00	1.40	2.00	0.43
Public administration and defence	16,269.00	15.30	2,139.00	2.86	13.00	2.77
Administrative services	0.00	0.00	1,150.00	1.54	7.00	1.49
Information/communication	4,243.00	3.99	2,060.00	2.75	25.00	5.33
Utilities	300.00	0.28	910.00	1.22	3.00	0.64
Arts/entertainment	200.00	0.19	0.00	0.00	2.00	0.43
Professional services	0.00	0.00	2,100.00	2.81	2.00	0.43
Health/social work	55.00	0.05	0.00	0.00	1.00	0.21
Other services	150.00	0.14	0.00	0.00	1.00	0.21

Source: European Restructuring Monitor, 2014.

Other legislative changes influenced the economy as well. In the 2012 VAT lower rate increased from 10 % to 14 %. The new Civil Code, Act on Corporations and some other legislation, which promise to bring ground-breaking changes to the Czech civil and corporate law, came into force in January 2014.<sup>1</sup>

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<sup>1</sup> Among others, the new Civil Code modifies the entrepreneurship sphere, such as definition of entrepreneur or accepts new conception of a company. The conditions for the establishment of limited companies, the most favourite form of companies in the Czech Republic, were liberalized. The most important features are the reduction of barriers and greater flexibility, as follows:

- Reduction of basic capital from 200,000. CZ to 1 CZK.
- Reserve fund is not compulsory.
- Natural person can be shareholder in unlimited number of limited companies.
- One shareholder can own more than one share.
- Different shares can be entitled by different rights (different weight of vote, preferential right to the payment of income etc.).

## 2. Legal framework on restructuring

The basic conditions for the restructuring are influenced by the legislative framework, mainly by the labour-law regulations, wage setting and social security.<sup>2</sup> The following text briefly describes regulation focused on collective agreements, redundancy compensations and collective redundancies. For further information about legal framework on restructuring see Karásek & Balcar (2009), the most crucial features are displayed in table 2.6.

### 2.1 Collective redundancies

The framework for collective redundancies is based on the Labour Code. Section 62 states that collective redundancies (collective dismissals) means the termination of employment relationships by one employer within a period of 30 calendar days to no less than: (i) ten employees where an employer employs from 20 to 100 employees; (ii) 10 % of employees where an employer employs from 101 to 300 employees; (iii) 30 employees where an employer employs more than 300 employees. These regulations are valid both for employers in the private and public sector without any exceptions. From the above mentioned it is clear that the term collective redundancies can be used only in the case of certain employers (depending on their size) and in the case of particular size of redundancies. Before giving notice to individual employee collective dismissals this shall be reported in writing by the employer to the trade union organization and the works council at least 30 days in advance. The employer should provide information such as the reasons, the number and professional qualifications of the employees to be made redundant and of all employees, the criteria proposed for selecting employees to be made redundant and redundancy payment. Table (2.1) presents number of companies, which have used collective redundancies in the period 2008-2014 and the number of affected employees. It is important to notice that given numbers include only employees who were dismissed by formally announced collective redundancies so real number of dismissed individuals is probably even higher. *Table 2.1: Number of collective redundancies.*



<sup>2</sup> The most important are the following regulations (Karásek, Balcar, 2009):

- Act No. 262/2006, Labour Code,
- Act No. 309/2006, ensuring other conditions of safety and protection of health at workplace,
- Act No. 251/2005, inspection of work,
- Act No. 435/2004 Employment Law,
- Act No. 118/2000, protection of employees in the case of employer's insolvency,
- Act No. 2/1991, collective bargaining law,
- Act No. 174/1968, state labour safety inspection.

year	Month	number of employers	number of employees	year	Month	number of employers	number of employees
2008	November	110	7,203				
	December	86	5,991				
2009	January	179	11,433	2012	January	23	1,296
	February	106	4,511		February	23	1,148
	March	122	5,381		March	27	1,283
	April	64	2,571		April	14	494
	May	65	3,822		May	24	802
	June	47	3,082		June	25	1,535
	July	62	2,308		July	39	1,308
	August	71	3,844		August	27	1,767
	September	84	3,066		September	34	1,493
	October	50	1,931		October	31	1,712
	November	94	2,094		November	30	1,051
	December	61	1,611		December	42	1,849
2010	January	31	2,277	2013	January	28	1,677
	February	27	1,071		February	44	1,116
	March	18	1,325		March	43	1,939
	April	18	1,237		April	28	993
	May	18	725		May	47	1,47
	June	15	692		June	23	1,534
	July	23	769		July	15	2,014
	August	29	1,482		August	21	1,003
	September	96	2,435		September	30	1,713
	October	42	1,522		October	28	1,873
	November	80	2,321		November	18	1,212
	December	27	904		December	15	901
2011	January	36	2,21	2014	January	17	1,653
	February	23	835		February	13	593
	March	22	1,309		March	24	772
	April	11	2,37		April	24	1,146

<b>May</b>	19	442	<b>May</b>	9	511
<b>June</b>	15	855	<b>June</b>	13	444
<b>July</b>	11	740	<b>July</b>		
<b>August</b>	32	1,681	<b>August</b>		
<b>September</b>	22	1,09	<b>September</b>		
<b>October</b>	37	2,114	<b>October</b>		
<b>November</b>	25	1,685	<b>November</b>		
<b>December</b>	36	1,926	<b>December</b>		

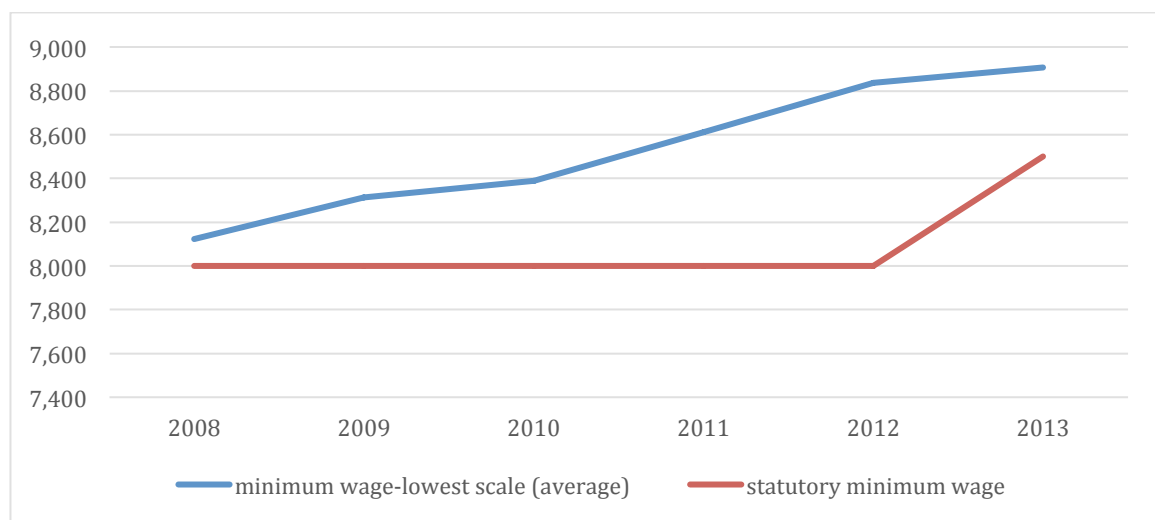
Source: Labour Office internal data, 2014.

## 2.2 Collective bargaining

Collective bargaining on wages and employee remuneration represents the most important element of collective agreements especially in the private sector where employers are not bound by rated tariffs and can adjust remuneration of employees according to actual economic results of the company. In the public sector wage tariffs are defined by Statutory Decree 564/2006 Coll. for the public services and administration. In other public organisations the employer can set the wage tariffs, but the budget assigned for wages is fixed in advance by the provider (e.g. government).

The monthly wage rates have been agreed on in about 55 % of the Enterprise Collective Agreements. As some employers have not agreed on precise wages but on intervals within which the wage is moving, the Working Conditions Information System (ISPP) monitors only the lowest level of the 12 tariff scale. ISPP survey shows that in the last years of the economic crisis the dynamics of comparison of monthly wage rates development has slowed down from 2.6 % - 3.5 % in 2012 and from 0.4 % to 1.2 % in 2013. In spite of this development the dynamics keeps growing tendency in all tariff scales. Chart (2.2) describes the evolution of the monthly minimum wage negotiated by the trade unions (average of the lowest scale) and statutory minimum wage during economic crisis.

Chart 2.2: Monthly minimum wage, 2008-2013.



Source: Working Conditions Information System, 2008-2013.

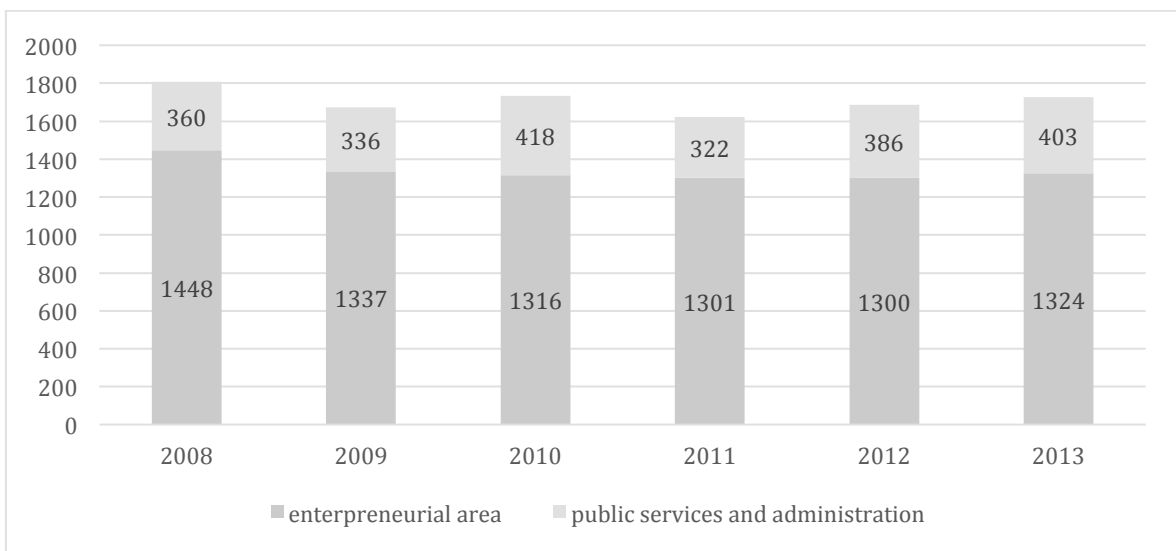
### 2.3 Collective agreements

Collective agreements are based on the Collective Bargaining Act. This act regulates collective bargaining between the competent organs of the trade union organization and the employers. Final agreements shall regulate individual and collective relations between employers and their employees and the rights and obligations of the contracting parties. Czech law distinguishes between (i) company-level collective agreements, which adjust relation between the relevant trade union member and an employer, and (ii) higher-level collective agreements, which include greater number of employees by the relevant higher-level trade union body and an organisation(s) of employers. As Veverková (2012) states, the most prevalent level of collective bargaining in the Czech Republic is the company level, Czech Republic has no central register of them however.

The impact of the crisis on collective bargaining and conditions agreed in collective agreements differs by sector as the crisis affected different sectors in different ways. According Veverková (2012) this can be noticed in the development in the number of company-level collective agreements. The drop in the number of company-level collective agreements concluded was radical in some sectors while in others did not differ from the previous years. The level of centralisation in collective bargaining has changed ambiguously. Members (organisations at the company level) have more freedom in collective bargaining to adjust their requirements according to the needs of their sector and the particular company. Simultaneously union confederation started to organise lectures and training on how to bargain collectively in the time of economic crisis, published methodological manuals related to the collective bargain or obtaining related wage and economic data. Collective bargaining has been relatively stable in the Czech Republic during the crisis.

The chart (2.3) shows number of collective agreement during the period 2008-2013. It is obvious that a number of collective agreements was not importantly influenced by the economic recession.

Chart 2.3: Collective agreement, 2008-2013.

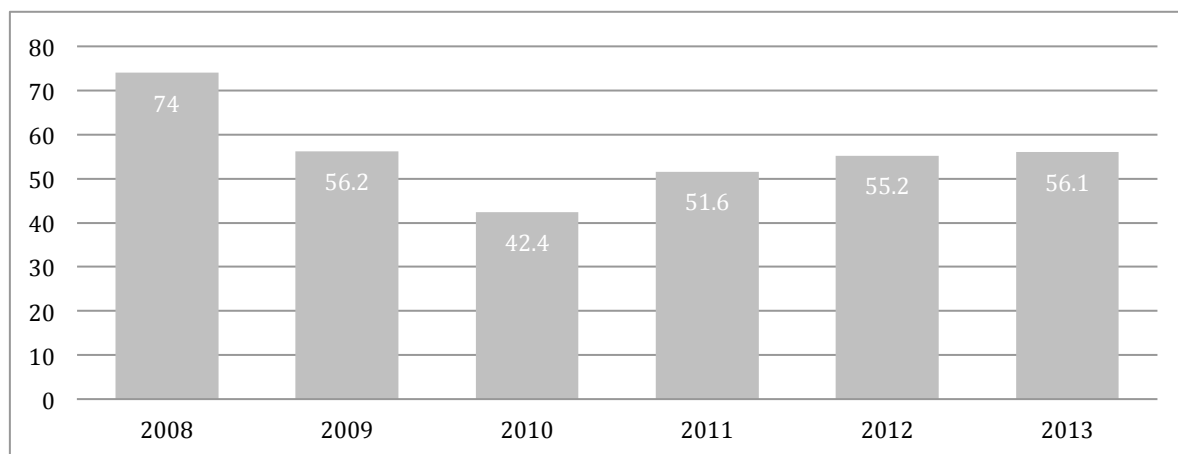


Source: Information system on working conditions 2008-2013.

Table (2.4) presents number of collective agreement regulating wage increase in the private sector during 2008-2013. Data shows the considerable influence of the economic recession that resulted in a decrease of the number of collective agreements in which a specific year-on-year wage increase is stipulated. The main reason for the decrease was that, due to uncertainties brought about by the

economic crisis, employers refused to sign up to binding rules on remuneration in the form of a collective agreement.

Table 2.4: Collective agreements regulating wage increase – private sector, % of agreements



2008	2009	2010	2011	2012	2013
74.0	56.2	42.4	51.6	55.2	56.1

Source: Working Conditions Information System, 2008-2013.

## 2.4 Redundancy compensations

Up to 2012 employees were entitled to receive severance payments equal to at least three times his average monthly wage, if the notice is given by his employer for one of the reasons (i) if the employer's undertaking, or its part, is closing down; (ii) if the employer's undertaking, or its part, is relocated; (iii) if the employee becomes redundant because of the decision of the employer. For all these cases employees were entitled to receive triple his average monthly wage.

Since 1.1.2012 this provision was modified and stricter conditions were adopted. The main reason for changes was to create more flexible labour market and higher protection of employment relationship. If the employee is laid off because of the same reasons as mentioned above or by agreement for the same reasons, he/she is entitled to receive redundancy payment from the employer at least in the amount equal to (i) once his average (monthly) earnings where an employment relationship to the employer lasted less than one year; (ii) twice his average earning where an employment relationship to the employer lasted at least one year and less than two years; (iii) triple his average earning where an employment relationship to the employer lasted at least two years. If the employee is under the working hours account<sup>3</sup>, he will receive sum of triple his average earnings and the amounts laid down in (i) to (iii) where his employment relationship is terminated in a period when he is subject to a working hours account. If according to a medical certificate issued by the occupational medical services provider the employee is not allowed to perform his current work due to an industrial injury, an occupational disease and others, employee is entitled to receive severance pay in the amount of at least twelve times his average earnings upon termination of the employment relationship.

<sup>3</sup> Working hours account is method of distributing working hours and this method may only be introduced on the basis of the relevant collective agreement or, where there is no trade union organization operating in the employer's undertaking, on the basis of the internal regulations. Under this regime the employees work according needs of the employer and his working hours will vary in the individual weeks.

### 3. Actors involved in restructuring

There are five groups of stakeholders that can be regarded as important players in restructuring processes:

- National government
- Employers' and employees' organisation
- Regional/local government
- Public employment services (Labour Office)
- Other

#### 3.1 National government

National government has an important part in the restructuring process as it creates relevant legislative framework, defines aims of labour market policy, manage important measures for prognosis and has institutional assumptions for employees support. National government has also provided an access to the financial sources, which can allocate in an appropriate way to cover needs of entrepreneurs and employees during the restructuring process. National government mediates incentives and can support mechanisms for risk sharing (e.g. graduate employing is supported by the Labour Office up to three months in the amount of the half of the minimum wage; governmental support for export loans).

#### 3.2 State authorities – Ministry of Labour and Social Affairs

The ministry of Labour and Social Affairs is mainly responsible for social policy, social security, employment, labour legislation, occupational safety and health, equal opportunities of women and men, migration and integration of foreigners, European Social Fund and other social or labour related issues. It also provides methodological guidance for Labour Offices, Czech Social Security Administration or State Labour Inspection Office.

#### 3.3 State authorities – Labour Office

The Labour Office of the Czech Republic is responsible for all areas of employment, protection of workers at the employer's insolvency or state social support. Between tasks of the Labour Office belongs registration of job seekers or managing of active labour market policy. It also coordinate activities to help dismissed workers to find new job, mediate training, retraining or education for them, support mobility of the work force or develop human resources. Other important task of the Labour Office is paying off unemployment benefits.

From 1.1.2012 the Act on Employment sets up stricter conditions for unemployment benefits. A job seeker can apply for unemployment support if he/she meets the basic conditions (i) he/she has accrued in the decisive period, which is the last 2 years (used to be 3 years) prior to inclusion in the register of job seekers, of at least 12 months; (ii) requested that the regional branch of the Labour Office at which he/she is entered in the register of job seekers provide him/her with unemployment benefit and (iii) is not a recipient of an old-age pension on the day of which the unemployment benefit is due to be approved. Job seekers who satisfy the conditions have a right to unemployment benefits for following period:

- Up to 50 years of age 5 months
- Between 50 and 55 years of age 8 months,



- Over 55 years of age 11 months.

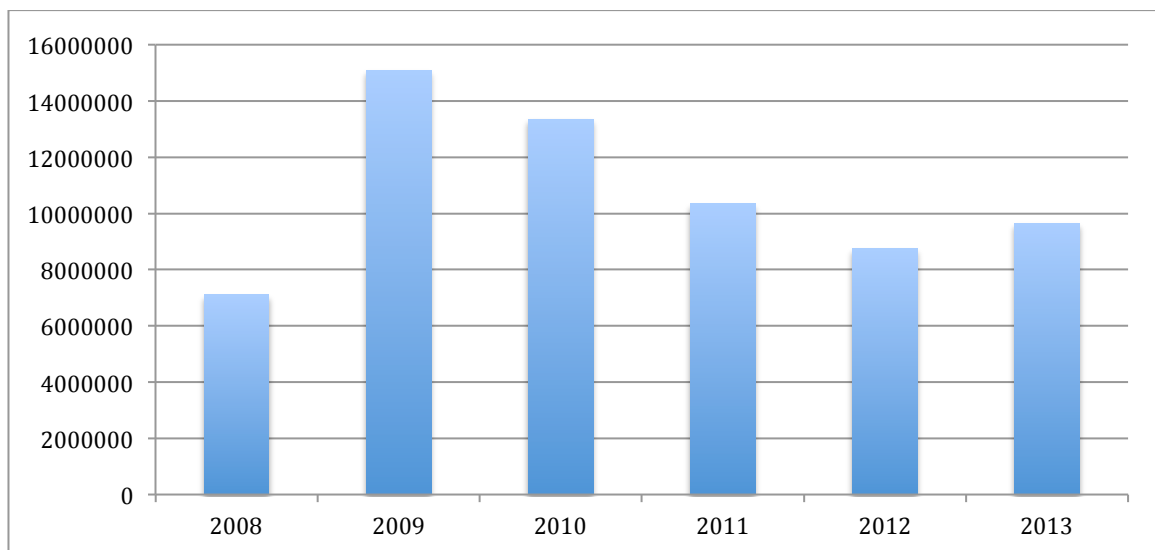
The job seeker will receive following amount of unemployment benefits:

- 65 % of the average monthly net wage for the first two months
- 50 % of the average monthly net wage for the two following years
- 45 % of the average monthly net wage for the rest of the period.

If the job seeker obtains redundancies from the last employer, the employment benefit will be provided after the expiry of the period which shall be determined according to the number of multiples of average wage or monthly service income, from which the minimum amount of compensation, gratuity or severance pay set was derived. After the period when the unemployed individual has right for unemployment benefits he can ask for the state social support (child allowance, housing allowance, parental allowance, birth grant, funeral grant) or assistance in material need.

Table (3.1) presents unemployment benefits paid from the State budget. It is clear that the biggest amount of funds was redistributed in 2009. The amount of unemployment benefits was more than doubled compared to the previous year. In the following years the amount of unemployment benefits is slightly decreasing mainly due to a fact that many of the unemployed no longer meets the condition necessary for the unemployment benefits.

Table (3.1): Unemployment benefits, th. CZK.



Source: Ministry of the Finance of the Czech Republic, 2008-2013.

### 3.4 Regional government

Important role of regional government within the restructuring process is in coordination of all involved stakeholders (entrepreneurs, trade union, social partners, educational institutions etc.). The Czech Republic is divided into municipalities, which are fundamental self-governing territorial divisions and regions and are superior by self-governing territorial divisions (Constitution of the Czech Republic). The municipalities can approve the programme for the development of the municipality, approve municipality budget or to establish or wind up institutions receiving contributions from the central government budget and organisational units of the municipality (Act on Municipalities). In general, local governments care for the creation of conditions for the development of social welfare and the fulfilment of citizens' needs. Municipalities are responsible particularly in the fields of housing,

protection of health, transport and communication, education, culture and protection of public order. Regional governments can take part in the projects supporting developing of the region, lowering local unemployment rate, provide services, support entrepreneurship etc.

### 3.5 Trade unions

The largest trade union confederation is the Czech-Moravian Confederation of Trade Unions followed by the Association of Independent Trade Unions. Both trade unions are members of tripartite forum, which has 7 representatives. Czech-Moravian Confederation of Trade Unions is a voluntary, open, independent democratic confederation of trade unions protecting wage, working and living conditions and rights of employees. This trade union was established in 1990. At the beginning of its existence it united 40 independent trade unions. Since then some of them were united and some left the confederation. In 2014 the Confederation gathers 29 trade unions and covers about half a million members. During the 2010-2014 period its main objective was to protect employees' rights in the time of economic crisis. The Confederation requires sharing of the costs of the financial and economic crisis equally so they would not represent burden only on the side of employees. Association of Independent Trade Unions was created in 1995 and has about 200 thousand members. This Association unites 14 free, politically independent trade unions. Its main aim is to protect economical, working, social and other interests of the members of an association.

Between the important tasks of the Trade Union belongs labour protection of the workers, activities in the area of the salary setting, retirement payments of the employees. They can provide their opinions and perform consultative function for tax laws, labour law and other which influence the workers. Their representatives are members of the Tripartite Forum (see Chapter 3.7).

### 3.6 Employers' organisations

The situation is relatively stable in the case of employer organisation density. The most significant employers' association is the Confederation of Industry of the Czech Republic and the Confederation of Employer and Entrepreneur Association of the Czech Republic. Smaller private entrepreneurs are organized in the Association of Entrepreneurs of the Czech Republic. The Confederation of Industry of the Czech Republic was established in 1990 and consists of 29 other confederations and 116 individual members (totally over 1,600 companies with almost million employees). It is a voluntary, non-political and non-governmental organisation, which participates in shaping the Czech Government's economic and social policy in order to create optimal conditions for business developments in the country. At the national level, Confederation actively lobbies in the Parliament, state administrative bodies and among local authorities. To achieve their aims the Confederation leads information campaigns directed to external audiences or organizes business supporting events. At international level the Confederation works in the committees of the European Commission and European agencies or actively lobbies in additional European institutions. The Confederation of Employer and Entrepreneur Association of the Czech Republic was established in 1990 as well. It represents seven individual employers unions and totally has about 23,000 members with more than 982,000 employees. It presents and defends interests of its members in the legislative and other areas. The main effort of the Association of Entrepreneurs of the Czech Republic is to support creation of such legislative structure which help to create fair entrepreneurial environment within all kinds of entrepreneurial activity; removal of administrative burden; removal of protectionism and unequal conditions between Czech and foreign companies; or unification of the entrepreneurial conditions within EU.

Employers' organisations are during restructuring the main management partner. They should be included and actively take part in all anticipatory measures and permanent mechanisms, which are introduced and implemented. They can support smooth transition and protect employees' rights (Evropská komise, 2009). As was already mentioned above (Section II) the employers' organisations have greater importance in the area of collective agreements in the private sector. In the context of the economic crisis collective bargaining focused less on wage development and more on other issues such as conditions governing trade union operation, the provision of information to and consultation with unions, conditions of severance pay issues and employee participation. Over the crisis years there has been a distinct increase in the number of collective agreements stipulating an employer contribution to employee supplementary pension insurance schemes, an increasing tendency to consider the factor of age in case of dismissal, and employment programmes for older workers (Pfeiferová, 2012). New trends are also reflected in stipulations related to fair treatment at work, returning to work after a period of parental leave and other programmes connected with employment and the implementation of European legislation into Czech labour market.

### 3.7 Tripartite forum

The tripartite forum at national level (Council of Economic and Social Agreement) is the main social dialogue institution in the Czech Republic. The council was established in 1990 as an institutionalized platform for social dialogue among the government, trade unions and employers. It represents joint voluntary negotiating and initiative body of the government, trade unions and employers for achieving agreements on essential issues of economic and social development, but has strictly a consultative function. The conclusions of the meeting are approved by all members. In the case that the consensus and common conclusions are not reached the different opinions of the individual partners are published. The tripartite forum represents room for collective discussion between employers and trade union representatives. Employers are represented by the two largest confederations – the Confederation of Employers' and Entrepreneurs' Association of the Czech Republic and the Confederation of Industry of the Czech Republic. The trade unions are represented by the Czech-Moravian Confederation of Trade Unions and the Association of Autonomous Trade Unions.

The top negotiating body is the Plenary meeting, where the government is represented by 7 representatives, employers organisations by 7 representatives and employees organisations by 7 representatives as well. The main areas of interest of the tripartite forum involves: economic policy; wages and salaries; labour relations; social issues; public administration; safety at work; development of human resources and education; the position of the Czech Republic within the EU. The conclusions of the meeting are approved by all members. In the case that the consensus and common conclusions are not reached the different opinions of the individual partners are published. The tripartite forum represents room for collective discussion between employers and trade union representatives.

## 4. Measures for anticipating change

The availability of statistical data, required for further analyses, and prognosis of the future development for the economy as a whole or on the regional level, is necessary for successful restructuring of the economy. The following text mentions a few institutions, which provide this kind of data in the Czech Republic. Detailed information is provided mainly for the projects, which have started or have been significantly updated since 2008.

## Czech Future Skills!

The long-term focus of the National Observatory of Employment and Training who participates on the project “Czech Future Skills!” ([www.czechfutureskills.eu](http://www.czechfutureskills.eu), [www.budoucnostprofesi.cz/](http://www.budoucnostprofesi.cz/)) is the development of methodology for forecasting skills needs in the labour market. The objective is to systematically generate and analyse information about future occupational requirements, qualifications and skills. The project consists of four main sectors: (i) the future of profession, (ii) regional analyses, (iii) industries development, (iv) sector studies. This project includes the projection of numerous job profiles, complemented by ad-hoc analyses and relatively up-to-date information. As a negative Con of this project can be considered quite small sample (sample used by the Czech Statistical Office, Labour Force Survey) to give detailed data on sectors and regions. For detailed information about this project see Karásek, Balcar (2009).

## Labour Market Prognosis – Estimation of educational needs

Research Institute for Labour Market and Social Affairs focuses on the relation between employment and education of labour market participants ([prognozatrhu prace.vupsv.cz/](http://prognozatrhu prace.vupsv.cz/)). They focus on the long-time trends in educational composition of different professions and employments structure of specific-skilled employees. Aim of this project is to provide proper information for workers who newly entered to the labour market. For this reason the structure of employees’ classification is simplified so the education structure of each group is different. This project include the projection of numerous job profiles and relatively up-to-date information as it provides description of the employment structure in 2010 and forecast for 2011-2015 period. For its objection it uses simplification of the employees’ structure and limited forecast (only up to 2015).

## Moravian-Silesian Employment Pact

Moravian-Silesian Employment Pact (MSEP) presents strategic partnership of entrepreneurial subjects, schools and other institutions in the Moravian-Silesian region. The MSEP was established in 2010 and aims to change the unfavourable situation in the local labour market. It’s priorities are to create or support creation of more and better jobs, provide perfect services, support entrepreneurship and creativity or support the promotion of technical and craft branches and activities leading to increase of their prestige. The advantage of this kind of cooperation is detailed knowledge of the situation in the given region and its needs.

The experience of the Pact was used in other regions. In the Usti region a similar pact was signed in 2013, followed by the Liberec region (2014). The other regions are considering following their example. On the level of the Czech Government there have been discussions to support the national system of Territorial Employment Pacts including one Pact for each NUTS 3 region.

## Regional observatory of the labour market

Apart from providing statistical data on the state level there are some projects focused on the regional level. Regional labour market observation is provided by Regional observatory of labour market and competitiveness ([www.msobservator.cz/](http://www.msobservator.cz/)) in the Moravian-Silesian region. The observatory offers data focused on the demographical development, labour market, research and development, education or entrepreneurship. In another section analyses and surveys are available which can provide profiles of industries in the Moravian-Silesian Region, surveys of employability of graduates etc. As Karásek & Balcar (2009) states the RESA has been built on two main pillars – Informational system; and analyses and surveys.

## Others

Above described projects are examples of information sources providing forecast analysis based on the description of the past and present development. Apart of them there are other institutions which mainly provide descriptive data needed for further analysis.

- The Czech Statistical Office ([www.czso.cz](http://www.czso.cz)) provides basic set of statistical data describing different areas of the Czech economy. The Czech Statistical Office wide range of the basic data usually covers time period from the year 1991 or later; analysis of current trends; and some prognosis as well.
- Labour Office ([portal.mpsv.cz](http://portal.mpsv.cz)) publishes detailed data focused on the labour market (e.g., labour force, different kind of unemployment, expenses for active labour market policy). Those data are available both on the national and regional level. Based on the provided data Labour Office publishes analyses of the current state of the Czech labour market and its main short-term trends.
- Individual ministries and the Czech National Bank provide data and analysis according to their specialization.
- Similar data as presented above are provided on the regional and municipality level by Regional Information Service ([www.risy.cz](http://www.risy.cz)). This service also offers information about different project and programs realised in the individual regions and usually sponsored by the EU of government funds.

## 5. Measures for managing change

In the reaction to the economic crisis there were adopted only few measures and instruments for managing restructuring. In 2009 the Czech government adopted the National Anti-Crisis Plan. Brief description of the plan is provided in the Introduction, for detailed information see Karásek & Balcar (2009). As CERGE-EI (2012) notices two interventions connected with the labour market have been used more extensively. Under the Labour Office permission, the Czech Labour Code allows employers, temporarily facing lower volume of orders due to the economic crisis with a consequent reduction of production, to lower wages down to 60 % (so called partial unemployment). This measure was used by 850 employers in 2009 and influenced 37,000 employees consequently.

The second measure has been focused on creating temporary working places in public sector. It allows creating subsidized job opportunities in public sector in the form of community service. The intention of it is to prevent low qualified unemployed from degradation of working habits and social exclusion.

Several new amendments of the Labour Code have come into force since 1.1.2012. Their authors intended to provide more contractual freedom to the employees and employers and increase labour market flexibility. Measure treating temporary unemployment was modified as well. Since 2012 it is not necessary to ask the Labour Office for the permission if the employer intends to use this scheme. The rules for drawing the unemployment benefit have been tightened as well. In order to be granted the unemployment benefit the job applicant must meet stricter criteria. Attendance in the system of community service became obligatory for job seekers registered in the database of Labour Office at least for two months. Those who would refuse to take part would be removed from this register and simultaneously the health insurance contribution was not paid instead of him from the state budget. This individual would also lose his right for unemployment benefits and social payments. The

community service was extended up to 20 hours per week; and workers were not paid. In 2012, 47,366 unemployed individuals took part in the community service and 97 % of them were long-term unemployed. Average duration of the community service was 90 days. The community service was removed by the Constitutional Court of the Czech Republic at the end of 2012. The main reason for its abolition was that this provision was in conflict with the Charter of rights and freedoms as it was similar to the forced labour.

Measure	Exist (Y/N)	Volumes/coverage	Comments
Wage and labour cost reduction	N		
Short time work	Y	Not limited	Depends on the agreement between employer and employee
Partial unemployment	Y	Not limited	Wage at least 60 % of an average salary
Temporary lay offs	N		
Early retirement	Y	Range is given by the Pension Insurance Act	
Dismissal and severance pay	Y	to at least three times employees' average monthly wage	For detailed information see Chapter 2.4
Dismissal and transition to new job	N		
Training for transition and re integration	Y	Costs for training are paid by the Labour Office	

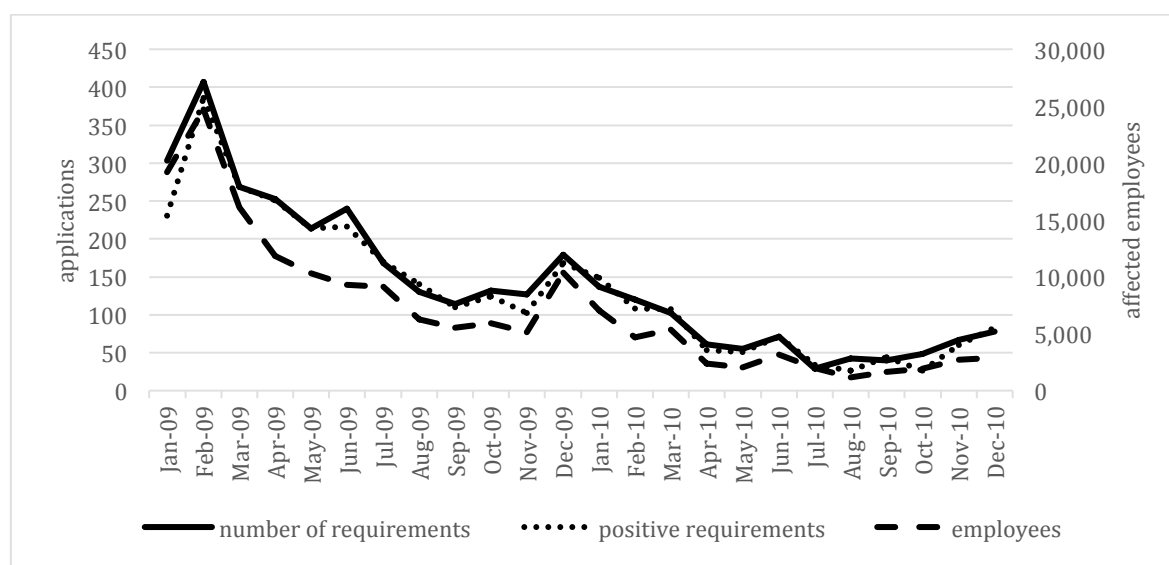
## 5.1 Partial unemployment

The provision enabling to avoid lay-off employees because of temporary restrictions on sales of product or services started to be used during the crisis. According to section 29 Labour Code if obstacles to work on the side of the employer appears and the employer is unable to provide a work to employee within the scope of weekly working hours due to a temporary drop in sales or due to a drop in demand then the employee can be considered as partially unemployed.

If the trade union regulates the level of compensatory wages, then an individual employee must be paid compensatory wage at the minimum level of 60 % of his average earning. If the relation between the employee and the employer was not regulated by the trade union the employer had a possibility to ask the Labour Office for approval until 2012. Since January 2012 such approval may be substituted by company internal regulations. Prior to 2008 the use of this measure was minimal. The Ministry of Labour and Social Affairs only began to maintain statistics in December 2008 however. Since 2008 this measure appeared to be attractive for the employers. The Ministry of Labour and Social Affairs notes that in 2009 it obtained 2,607 applications involving 149,275 employees. This measure was used approximately by 4 % of employers whose employees are not members of trade union and the Ministry supposes that the same number of employers under the regulation of trade union have used it.

In 2010 the Labour Office obtained 852 applications, 812 were approved with 36,999 employees involved. Data for the following years are not available as this measure is not regulated by the Labour Office since 2012.

Chart 5.1: Partial unemployment, 2009-2010.



Source: Labour Office internal documents, 2014.

## 5.2 Early old-age pension

The basic condition which has to be fulfilled for early old-age pension is accumulation of the required period of insurance, given by the Pension Insurance Act. The entitlement to this pension then depends on reaching the age of retirement:

- if the age of retirement of the insured individual is at least 63 years old, the entitlement arises no earlier than upon reaching at least 60 years of age, or
- if the age of retirement of the insured individual is less than 63 years old, the entitlement to an early old-age pension arises no earlier than on the day from which no more than three years remain until retirement age is reached.

Number of people who used early old-age pension scheme is reported in table 5.2. Their number has increased since the economic crisis started (with small drop in 2010). The peak of early retired individuals was reached in 2011 when nearly 50 % of all retired individuals were early retired as the early retirement represents possibility how to tackle unemployment. In the following years the number of early retired individuals sharply decreased.

Table 5.2: Early retired individuals

	2008	2009	2010	2011	2012	2013
<b>Total number of retired individuals</b>	160,107	163,117	128,116	164,857	86,170	87,520
<b>Early retired individuals</b>	35,461	42,243	39,442	80,373	27,852	27,309

(share of all retired)	(22%)	(26%)	(31%)	(49%)	(32%)	(31%)
Average pension of early retired individuals (CZK)	8,571	9,441	9,643	10,065	9,674	10,187

*Source: Czech Social Security Administration, 2014.*

### 5.3 Wage guarantee in case of insolvency

The wages of employees are protected under Act No. 118/2000 Coll., On the Protection of Employees in the Event of Insolvency of Their Employer. In the case of insolvency the employees have priority. Their wages or salaries after the declaration of the judicial liquidation will be paid during the bankruptcy proceeding. After the declaration of insolvency an employee can ask the Labour Authority for his wage and if he has met the condition of the legislation the Labour Authority pays the sum to the employee from the Government budget, the Czech Republic becomes a creditor of the employer simultaneously.

Outstanding claims are limited to 6 months before the petition to commence bankruptcy proceedings. It means that a petitioner may ask for up to 3 months unpaid wages or salary, but only within the last 6 months. The payments are limited to 1.5 times of the average wage or salary in the Czech Republic.

### 5.4 Training

In the previous study Karásek & Balcar (2009) presented two educational programmes launched by the Ministry of Labour and Social Affairs – “Educate Yourself” and “Training is a chance”. The first part of the programme “Educate Yourself” was finished in 2010. The second part of this project (Educate Yourself 2) was launched in 2009. Eligible costs such as education activities cost, travel costs or wage costs can be settled from its budget. Maximum amount of 24,000 CZK/month/employee can be obtained. Except of above mentioned educational programmes new ones have been presented. They are mainly supported by EU funds and are aimed at different target groups but if the company fulfils all required criteria then can apply for more projects simultaneously or gradually. Those programs primarily aim to enhance skills base among workers.

Since 2010, trade unions and employers in the Czech Republic had been calling for support scheme to reduce working time with no loss of income for workers, known as “kurzarbeit”. The scheme meant that if companies reduce their workers’ hours because of a fall in business, the employees’ lost earnings are made up by state. The company, in turn, have to promise not to dismiss any workers. In the case the company will not behave in accordance with the conditions then can be penalized. In 2012 the Ministry of Labour and Social Affairs suggested that the new active labour market policy measure will be introduced. The idea was to contribute to the wages paid under the partial unemployment scheme. This contribution would be available under the condition that the rate of growth of GDP would be negative. The maximum amount of the contribution was expected to be at 50 % of paid wage and would be available at most for 6 months. This proposal was criticised by the Association of Industrial Enterprises of Moravia and Silesia. The main objections were:

- Heavy administrative burden (also from the time perspective).
- Refunds would be paid back in 10-30 days. It could be a problem for many affected companies as cash-flow was one of the main problems during the period 2008-2009.
- State contribution covers only 50 % of the paid wage.
- The company is required to provide its strategic plan, contract prognosis etc. to show that it can “survive” the economic crisis.



**“Education for stability (“Kurzarbeit”)** project has been designed for employers who have to face reduction of their production as a result of the negative economic development and therefore are supposed to reduce the number of their employees. This project is funded from the EU Human Resources and Employment Operational Programme. The entrepreneurs who are not able to employ their current staff temporarily can apply for educational funds for them. The project simultaneously covers two priorities – improves qualification of the employees and increase their employability; and the working places will not be reduced. The suitable applicants are companies with annual rate of turnover on the level of 80 % and higher compared to previous period. The total amount of eligible costs for one employer is set at a maximum of 500,000 CZK/months. This subsidy can cover 25-80 % of total costs (100 % of total costs in the case of the “de minimis rule”). The project can be realised within 17. 9. 2012 – 31. 8.2015 period. The total amount of finance allocated to this programme is 150 mill. CZK.

This program can be considered as substitute for partial unemployment programme. Compared to the previous draft, it aims at supporting SMEs mainly and save about 6.000 jobs. The government provides contributions up to 31,000 CZK for 6 months at most. To be able to take other jobs afterwards, the supported workers are supposed to go through training programme during their partial unemployment time. This training is paid by the state unless the company has received funds from EU education programs. The main condition to receive the support scheme is the necessity to demonstrate that the employer is not able to assign work for an employee exceeding 20 % the weekly working time. Failure of the work cannot exceed 60 % of the weekly working time. In the first year of “kurzarbeit” the Ministry of Labour and Social Affairs obtained 197 applications, 107 were supported and were assumed to save about 600 jobs.

**“Education for growth”** project was realised within the period from May 31<sup>st</sup> 2011 to July 31<sup>st</sup> 2013. This project was implemented under the Operational Program of Human Resources and Employment and co-financed by the European Social Fund and state budget of the Czech Republic and was aimed on employers who were able to overcome the crisis and realize their activity in the branches with growth expectations and significant value added to GDP simultaneously. All sorts of companies could apply for the funds from the following branches: waste industry, social services, independent retail, constructions, and engineering. The total amount of eligible costs (education expenses and wages) for one employer was set at a maximum of 500,000 CZK/month. This subsidy could cover 25-80 % of total costs (100 % of total costs in the case of the “de minimis rule”). The project could be realised within 31. 5. 2011 – 28. 4. 2014 period. The total amount of finance allocated to this programme was 850 mill. CZK.

For **“Support of qualified education of employees”** project can apply self-employed individuals or employees of companies which have despite of economic situation stable market position with the perspective of growth (decrease of turnover is up to 5 %). This program presents follows up of previous programs aimed at professional skill improvement of the workers. The total amount of eligible costs for one employer is set at a maximum of 500,000 CZK/month. This subsidy can cover 25-80 % of the total costs (100 % of the total costs in the case of the “de minimis rule”). The Project can be realised within 1. 12. 2013 – 31. 8.2015 period. The total amount of finance allocated to this programme is 900 mill. CZK.

## 5.5 Retraining

The retraining takes place on the basis of an agreement between the Labour Office and the job seeker or person interested in work, if they require it to enhance their job prospects. The Labour Office shall pay the retraining costs for those participating in the retraining programme and can also offer them a

contribution to cover proven necessary expenses connected with the retraining programme. The retraining programme is provided by the competent Labour Office for the residence of the job seeker or person interested in work. If the chosen retraining can contribute to the employability of the job seeker or person interested in work on the labour market, the Labour Office may, following the completion of retraining, pay the price for retraining to the retraining facility. If the job seeker fails to complete the retraining for serious reason the Labour Office shall pay only share of the training costs. If the job seeker refuses to take up the job, corresponding to his newly acquired qualification, then is obliged to repay the price for retraining. Table 5.3 presents number of unemployment individuals who took a part in the retraining programmes. It is obvious that the importance of the retraining increased in the crisis period while the unemployment was increasing. The most unemployed took a part in the retraining courses in 2010.

Table 5.3: Retraining programmes

	2008	2009	2010	2011
<b>Participants in the retraining courses in total</b>	43732	44354	72649	50561
persons with disabilities (OZP) in %	11.2	8.5	8.2	8.5
unemployment longer than six months in %	34.0	53.6	48.8	46.5
<b>Type of retraining in %</b>				
professional - for the blue collars	24.2	31.7	28.8	27.6
professional - for the white collars	15.0	15.6	14.8	16.5
extension of the qualification	38.8	31.8	35.8	36.3
renewal of qualification	0.1	0.2	0.1	0.1
non-specific retraining	1.9	1.9	0.9	0.8
entrepreneurship training	3.3	3.7	3.4	3.4
other retraining	2.9	2.4	1,8	3.2
IT course	13.2	12.2	14.4	12.0
Courses dedicated to persons with physical disabilities - Preparation for work	0.1	0.1	0.0	0.0
Not identified	30.5	0.4	0.0	0.1

Source: Integrovaný portál MPSV, 2014.

## 6. Conclusion

The competitiveness of the EU and individual countries and the preservation of activities and jobs in Europe will depend more and more on the capacity of the individual entrepreneurs to boost their competitiveness through innovation and quickly and smoothly adapt to change. The structural weaknesses pre-dating the crisis which had not been tackled adequately are becoming obvious. European system which is built around the principle of job stability is becoming less and less capable to provide individual workers chance to secure their professional future as it is not capable to sufficiently encourage them to adapt to the changes.

Successful restructuring and adaptation to change involves ability to anticipate (un)expected changes and manage them actively. It is fundamental to accept some steps as far as possible in order to limit the negative impact of restructuring. Those steps should include knowledge, experiences and quality.

This report presents main changes and development related to restructuring. One of the main points has been the impact of the economic crisis on the restructuring. As the European Commission (2012) reminds, the recent crisis has thrown the issue of how to manage restructuring into sharp relief. It should be kept in mind that restructuring is a part of everyday business life. Anticipating and managing restructuring should therefore belong between the important tasks of each government.

The Czech attitude to the restructuring is importantly influenced by rapid changes of the governments representing different attitudes in the time of economic crisis. The plans, strategies and adopted measures were unstable and have not provided stable environment and conditions suitable for extensive restructuring. The Czech Republic does not provide any general system or tools for anticipating and managing restructuring. The measures for anticipating restructuring are very scarce and are limited to a few institutes offering the predictions on the national level and on the regional level. For example in the case of Moravian-Silesian region, the available data can be more considered as an “information storage” system. Nearly no important changes were noticed since the report of Karásek & Balcar (2009). The conclusion of their work advised to:

- Support social dialogue at national, regional and company level. The recent situation cannot be considered as situation-improving. There have been several disputes between the social partners and governments usually based on the lack of dialogue and non-transparent and non-cooperative behaviour.
- Ensuring the availability of relevant data at global and mainly regional level. No progress has been noticed. There are no new projects in this area and data are provided by the same providers.
- Preparation of a modular toolkit measures and creation of the “Early Warning System”. Such systems have not been adopted and we have not noticed any information about progress in this area.

On the other hand the Czech Republic have adopted some new measures for managing restructuring, mainly the partial unemployment scheme and rules for receiving the unemployment benefit have been tightened. The “kurzarbeit” scheme, inspired by the German example, was adopted in 2012. In the Czech context it cannot be considered as really successful as it is criticised for its administrative burden and uncertainty about the payment of funds to the employer. Hand in hand with the obstacles, mentioned above, only a minority of entrepreneurs have utilized the state funded “kurzarbeit” scheme.

The Czech government continues in the trend of providing educational programmes for the employers and employees. Those programmes are usually targeting specific groups with growth potential and in

strategic areas and are co-sponsored by the European funds. This trend is followed by the trade unions as well. The trade unions have intensified their efforts in the educational field and provide their members with many different kinds of lectures, seminars and other materials focusing particularly on negotiating skills. In the given period the Czech Republic has supported regimes of reversible financing but to our best knowledge none of these regimes have been launched yet.

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